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FISCAL IMPACT STATEMENT

LS 6641

BILL NUMBER: SB 250

NOTE PREPARED: Feb 15, 2010

BILL AMENDED: Feb 15, 2010

SUBJECT: State and Local Taxes.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR: Rep. Crawford

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) *Internal Revenue Code Reference Update:* The bill amends the definition of federal "Internal Revenue Code" used in Indiana statutes and rules to refer to the Internal Revenue Code in effect on January 1, 2010. It requires that two years be used for the net operating loss carryback period for taxpayers (instead of the five years allowed under the federal Worker, Homeownership, and Business Assistance Act of 2009).

Streamlined Sales Tax Agreement Conformity: The bill makes changes in the gross retail and use tax laws to conform to the requirements of the Streamlined Sales and Use Tax Agreement.

Property Tax Circuit Breaker Credit: The bill eliminates a law that provides that property taxes levied to pay debt service or make lease payments for bonds or leases issued or entered into before July 1, 2008, are not subject to the circuit breaker credit in Lake County and St. Joseph County.

Effective Date: (Amended) November 6, 2009 (retroactive); January 1, 2010 (retroactive); July 1, 2010.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes in this bill. It is estimated the DOR could implement these changes through the use of its existing level of staff and resources.

Explanation of State Revenues: (Revised) *Internal Revenue Code Reference Update:* The bill updates the reference to the Internal Revenue Code to incorporate all the federal changes made up to January 1, 2010. The current reference to the IRC pertains to all IRC provisions amended and in effect on February 17, 2009. The update would include changes as a result of the *Worker, Homeownership, and Business Assistance Act of 2009* (P. L. 111-92), signed into law on November 6, 2009. This federal act should not generate a material

fiscal impact because the bill decouples from provisions of the federal act allowing a special 5-year (instead of 2-year) carryback for 2008 and 2009 net operating losses incurred by businesses.

Streamlined Sales Tax Agreement Conformity: The bill specifies sales that are excluded from the Sales Tax base, specifies certain sales that are exempt from Sales Tax, and specifies certain sales that are taxable under the Sale Tax for purposes of conformity with the Streamlined Sales Tax Agreement. The amendments, however, do not change the current treatment of these sales under the Sales Tax, so these changes are not expected to result in a fiscal impact.

For purposes of conformity with the Streamlined Sales Tax Agreement, the bill amends the statutory language relating to breakage of Sales Tax, including eliminating the breakage table for sales of less than \$1.07. This amendment does not change the breakage on sales of \$1.07 or more, but does result in a slight change in breakage for sales of less than \$1.07. The latter could result in a small positive fiscal impact from some sales that are less than \$1.07.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Property Tax Circuit Breaker Credit:* Under current law, the property tax circuit breaker limits net property tax bills to a percentage of the property's gross assessed value. The limits are 1.0% for homesteads; 2.0% for other residential property, commercial apartments, long-term care facilities, land under a mobile home, and land used for agricultural purposes; and 3.0% for all other real and personal property. Property tax levies for the payment of debt obligations that are approved in a referendum do not count towards the cap. In addition, the portion of a tax bill that is attributable to levies for existing debt in Lake and St. Joseph Counties are eliminated from the calculation of the credit.

Beginning with property taxes payable in 2010, levies for existing debt in Lake and St. Joseph Counties would count towards the cap under this provision. The inclusion of these levies would increase the circuit breaker credits in both counties.

Under current law, the total circuit breaker credits in Lake County are estimated at \$125.5 M in CY 2010 and \$124.8 M in CY 2011. Under this provision, the credits are estimated at \$213.6 M in CY 2010 and \$215.2 M in CY 2011. The impact in Lake County is an increase in the credits of \$88.1 M in CY 2010 and \$90.4 M in CY 2011. The additional credits are both a tax reduction for taxpayers and a revenue loss for local civil taxing units and school corporations.

Under current law, the total circuit breaker credits in St. Joseph County are estimated at \$29.8 M in CY 2010 and \$32.1 M in CY 2011. Under this provision, the credits are estimated at \$51.5 M in CY 2010 and \$54.0 M in CY 2011. The impact in St. Joseph County is an increase in the credits of \$21.7 M in CY 2010 and \$21.9 M in CY 2011. The additional credits are both a tax reduction for taxpayers and a revenue loss for local civil taxing units and school corporations.

The total change in circuit breaker credits for both counties is an estimated increase of \$109.8 M in CY 2010 and \$112.3 M in CY 2011.

State Agencies Affected: DOR.

Local Agencies Affected: Civil taxing units and school corporations in Lake and St. Joseph Counties.

Information Sources: Tom Conley, DOR, (317) 232-2107; LSA Parcel-level property tax database.

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